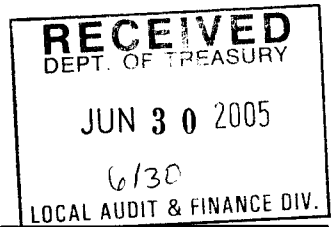


**FINANCIAL REPORT
BUILDING AUTHORITY
OF THE
CITY OF PETOSKEY
Year Ended December 31, 2004**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.



| | | | |
|---|-------------------------------|--|------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Building Authority of the City of Petoskey | County Emmet |
| Audit Date 12/31/04 | Opinion Date 3/4/05 | Date Accountant Report Submitted to State: 6/29/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|-------------------------|--------------------|------------------------|
| Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP | | | |
| Street Address 923 Spring Street; P.O. Box 695 | City Petoskey | State MI | ZIP 49770 |
| Accountant Signature <i>Kay Kase, CPA</i> | | | Date 6/29/05 |

**BUILDING AUTHORITY OF THE CITY OF PETOSKEY
FINANCIAL REPORT
Year Ended December 31, 2004**

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Hill • Schroderus & Co., LLP
Certified Public Accountants & Consultants

March 4, 2005

Independent Auditors' Report

Board of Commissioners
Building Authority of the City of Petoskey
Petoskey, Michigan

We have audited the accompanying financial statements of the Building Authority of the City of Petoskey, Michigan, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Building Authority of the City of Petoskey's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Building Authority of the City of Petoskey as of December 31, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan



City of Petoskey

Management Discussion and Analysis December 31, 2004

The Building Authority of the City of Petoskey's financial statements consists of three financial reports. The Statement of Net Assets, the Statement of Revenues, Expenses and Change in Net Assets and the Statement of Cash Flows provide information about the activities of the Building Authority as a whole and present's a longer-term view of the Authority's finances.

Financial Highlights

The Authority's net assets decreased by \$1,739 or 1.9% in 2004 and \$3,789 or 4% in 2003.

Total revenues were \$284,785 in 2004 and \$146,933 in 2003 and are made up entirely of interest on lease contracts. The increase is due to the first full year of debt requirements on the library bond issue.

Total expenses were \$286,524 for 2004 and \$150,722 for 2003 and are made up of the following:

| | <u>2004</u> | <u>2003</u> |
|----------------------------------|-------------|-------------|
| Bond interest and fiscal charges | \$278,060 | \$143,128 |
| Bond issue costs amortization | 8,464 | 7,594 |

The increase in expenses of \$135,802 or 90.1% is mainly due to the first full year of library bond debt requirements.

Project Highlights

The City's \$5.3 million library construction project on the corner of Mitchell and Waukazoo Streets was completed in 2004. The project funded by a \$4.3 million dollar bond issued in July of 2003 and cash reserves now focuses on work to the Carnegie Building (previous library) in 2005.

Financial Statement Presentation

Overview of Statements

Proprietary statements summarize all Authority activities into three statements using the full accrual method of accounting. This method of accounting is similar to private sector for profit accounting.

Proprietary statements include the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets. The Statement of Net Assets includes; assets, liabilities and the resulting difference between the two called net assets. Changes in net assets can be reviewed to determine financial strength with increases to net assets perceived as a sign of improving condition.

The Statement of Revenues, Expenses and Changes in Net Assets presents revenues and expenses (including depreciation) that are the underlying cause of changes in net assets. Capital projects are excluded from this statement since they are included in the Statement of Net Assets as additions to capital assets.

Financial Analysis

Summary of Net Assets December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|-----------------------|------------------|------------------|
| Current assets | \$ 316,945 | \$ 295,344 |
| Other assets | <u>5,152,119</u> | <u>5,358,705</u> |
| | <u>5,469,064</u> | <u>5,654,049</u> |
| Current liabilities | 258,888 | 242,271 |
| Long-term liabilities | <u>5,120,720</u> | <u>5,320,583</u> |
| Total liabilities | <u>5,379,608</u> | <u>5,562,854</u> |
| Net assets: | | |
| Unrestricted | <u>\$ 89,456</u> | <u>\$ 91,195</u> |

Common Effects to Net Assets

There are a number of transactions in the normal course of business that will effect the comparability of the Summary of Net Assets presentation.

The net result of business activities for the year will impact (increase/decrease) current assets and/or net assets.

Borrowing capital will increase current assets and long-term debt.

Spending of borrowed proceeds on capital projects will reduce current assets and increase capital assets while having no impact on invested in capital assets, net of debt.

Spending non-borrowed current assets on capital projects will reduce current assets and increase capital assets while reducing unrestricted net assets and increasing invested in capital assets net of debt.

Principal payment on debt will reduce current assets, long-term debt and unrestricted net assets while increasing invested in capital assets, net of related debt.

Reduction of capital assets due to annual depreciation will reduce capital assets and invested in capital assets, net of debt.

Changes in Net Assets
December 31, 2004 and 2003

| | | |
|----------------------------------|------------------|------------------|
| Revenues | <u>2004</u> | <u>2003</u> |
| Interest on lease contracts | \$284,785 | \$146,933 |
| Expenses | | |
| Bond interest and fiscal charges | 278,060 | 143,128 |
| Bond issue costs amortization | <u>8,464</u> | <u>7,594</u> |
| Changes in net assets | (1,739) | (3,789) |
| Net assets-beginning of year | <u>91,195</u> | <u>94,984</u> |
| Net assets-end of year | <u>\$ 89,456</u> | <u>\$ 91,195</u> |

Debt Administration

Bond Debt

The Authority has \$5,345,000 in outstanding bond debt at year end in 2004 which is distributed in the following debt schedule.

Debt Schedule
December 31, 2004 and 2003
(Excluding bond discount and refunding deferral)

| | | |
|----------------------|--------------------|---------------------|
| | <u>2004</u> | <u>2003</u> |
| General Obligation | \$4,250,000 | \$4,300,000 |
| Municipal facilities | 500,000 | 610,000 |
| Parking improvements | <u>595,000</u> | <u>640,000</u> |
| Total bond debt | <u>\$5,345,000</u> | <u>\$ 5,550,000</u> |

Principal payments on bonds in the amount of \$205,000 were made in 2004 and \$130,000 were made in 2003. The increase in principal payments is mainly due to the first principal payment on the library bond issue.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Director of Finance at 101 E. Lake Street, Petoskey, MI 49770.

BUILDING AUTHORITY OF THE CITY OF PETOSKEY
STATEMENT OF NET ASSETS
December 31, 2004

Assets

Current assets

| | |
|------------------------------------|----------------|
| Cash | \$ 58,057 |
| Receivables: | |
| Current portion of lease contracts | 205,000 |
| Interest | <u>53,888</u> |
| Total current assets | <u>316,945</u> |

Noncurrent assets

| | |
|----------------------------------|----------------------------|
| Bond issue costs - net | 72,312 |
| Lease contracts receivable - net | <u>5,079,807</u> |
| Total noncurrent assets | <u>5,152,119</u> |
| Total assets | <u><u>\$ 5,469,064</u></u> |

Liabilities and Net Assets

Current liabilities

| | |
|---|----------------|
| Current portion of general obligation bonds | \$ 205,000 |
| Accrued interest | <u>53,888</u> |
| Total current liabilities | <u>258,888</u> |

Noncurrent liabilities

| | |
|---|------------------|
| General obligation bonds (net of current portion, unamortized discounts and deferred amount on refunding) | 5,079,807 |
| Deferred revenue | <u>40,913</u> |
| Total noncurrent liabilities | <u>5,120,720</u> |
| Total liabilities | <u>5,379,608</u> |

Net assets

| | |
|----------------------------------|----------------------------|
| Unrestricted | <u>89,456</u> |
| Total liabilities and net assets | <u><u>\$ 5,469,064</u></u> |

BUILDING AUTHORITY OF THE CITY OF PETOSKEY
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS
For the Year Ended December 31, 2004

Revenues

| | |
|----------------------------|------------|
| Interest on lease contract | \$ 284,785 |
|----------------------------|------------|

Expenses

| | |
|----------------------------------|---------|
| Bond interest and fiscal charges | 278,060 |
|----------------------------------|---------|

| | |
|-------------------------------|-------|
| Bond issue costs amortization | 8,464 |
|-------------------------------|-------|

| | |
|----------------|---------|
| Total expenses | 286,524 |
|----------------|---------|

| | |
|----------------------|---------|
| Change in net assets | (1,739) |
|----------------------|---------|

| | |
|-----------------------|--------|
| Net assets, beginning | 91,195 |
|-----------------------|--------|

| | |
|--------------------|-----------|
| Net assets, ending | \$ 89,456 |
|--------------------|-----------|

BUILDING AUTHORITY OF THE CITY OF PETOSKEY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2004

| | |
|---|------------|
| Cash flows from operating activities: | |
| Cash received on lease payments | \$ 434,156 |
| Cash flows from capital financing activities: | |
| Principal paid on general obligation bond maturities | (205,000) |
| Interest paid on general obligation bonds | (223,622) |
| Fiscal charges | (550) |
| Net cash used for capital financing activities | (429,172) |
| Net increase (decrease) in cash | 4,984 |
| Cash at beginning of year | 53,073 |
| Cash at end of year | \$ 58,057 |
| Reconciliation of operating revenues to net cash provided by operating activities: | |
| Operating revenues | \$ 284,785 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Lease principle payments | 205,000 |
| Accrued interest | (53,888) |
| Decrease in deferred revenue | (1,741) |
| Net cash provided by operating activities | \$ 434,156 |

See accompanying notes to financial statements.

BUILDING AUTHORITY OF THE CITY OF PETOSKEY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Building Authority of the City of Petoskey, Michigan (the Authority) pertain to the financial activities of the Authority as a separate entity. These activities have also been consolidated with the financial statements of the City of Petoskey, Michigan.

The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the Authority.

The Building Authority has lease contracts with the City of Petoskey, Michigan, covering City Hall, marina, downtown and library improvements constructed or being constructed by the Authority. Since the contracts represent a financing transaction, the Authority has recorded the lease contracts as a receivable in lieu of recording the properties as fixed assets.

The Authority uses the full accrual method of accounting. Interest revenue on the lease contracts is recorded only if the payments received exceed the amount of the related principal payments on outstanding bonds. If principal payments on bonds outstanding exceed related payments received from the City, the difference is recorded as a forgiveness of the lease contract receivable. All of the revenue recorded by the Authority is considered operating revenue.

The Building Authority uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

For purposes of the Statement of Cash Flows, cash is considered to be cash on hand and demand deposits.

NOTE 2: CASH

At year-end, the carrying amount of the Authority's deposits and its bank balance was \$58,057. This balance is pooled with City of Petoskey funds, and therefore the amount that is uninsured at December 31, 2004 can not be determined.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 2: CASH - CONTINUED

The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits and investment policy are in accordance with statutory authority.

NOTE 3: LEASE CONTRACTS AND BONDS

The Building Authority has a lease contract with the City of Petoskey, Michigan, covering a new City Hall and marina improvements. General obligation bonds totaling \$1,350,000 were issued in 1988 by the Building Authority and all of the proceeds were used to acquire and construct the new City Hall and marina improvements. In 1999, the Building Authority issued \$965,000 in refunding bonds to refund the remaining balance of the original general obligation bonds.

The Building Authority has a lease contract with the City of Petoskey, Michigan, covering downtown improvements. General obligation bonds totaling \$800,000 were issued in 1999 by the Building Authority and all of the proceeds were used for this purpose.

The Building Authority has a lease contract with the City of Petoskey, Michigan, covering Library improvements. General obligation bonds totaling \$4,300,000 were issued in 2003 by the Building Authority and all of the proceeds were used for this purpose.

Rental receipts under the lease agreement, which are pledged as collateral for the bonds, have been set at the amount necessary to meet principal and interest payments due on the bonds. Upon retirement of the bonds, ownership of the related facilities will be turned over to the City.

Details of the ordinances and related assets and liabilities are as follows:

| | City Hall And Marina Improvements | Downtown Improvements | Library Improvements | Total |
|---------------------------------|---|--------------------------|-------------------------|--------------------|
| Lease contract receivable | \$ 568,655 | \$ 767,928 | \$ 6,870,937 | \$8,207,520 |
| Interest | (68,655) | (172,928) | (2,620,937) | (2,862,520) |
| Bond discount | - | - | (35,867) | (35,867) |
| Refunding deferral | <u>(24,326)</u> | <u>-</u> | <u>-</u> | <u>(24,326)</u> |
| Net receivable on balance sheet | <u>\$ 475,674</u> | <u>\$ 595,000</u> | <u>\$ 4,214,133</u> | <u>\$5,284,807</u> |
| Bonds outstanding, net | <u>\$ 475,674</u> | <u>\$ 595,000</u> | <u>\$ 4,214,133</u> | <u>\$5,284,807</u> |
| Interest rates | <u>4.50% to 4.75%</u> | <u>4.5% to 5.0%</u> | <u>2.5% to 4.4%</u> | |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: LEASE CONTRACTS AND BONDS - CONTINUED

The following is a summary of the Authority's long-term debt transactions for the year ended December 31, 2004:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> | <u>Amount Due Within One Year</u> |
|------------------------------------|------------------------------|------------------|--------------------|---------------------------|---|
| Bonds and notes payable: | | | | | |
| General obligation debt: | | | | | |
| 1999 Refunding Bonds | \$ 610,000 | \$ - | \$(110,000) | \$ 500,000 | \$ 105,000 |
| 1999 Downtown Improvement Bonds | 640,000 | - | (45,000) | 595,000 | 50,000 |
| 2003 Library Bonds | 4,300,000 | - | (50,000) | 4,250,000 | 50,000 |
| Bond discount | (37,393) | 1,526 | - | (35,867) | - |
| Refunding deferral | <u>(29,678)</u> | <u>5,352</u> | <u>-</u> | <u>(24,326)</u> | <u>-</u> |
| Total general obligation debt | <u>\$5,482,929</u> | <u>\$ 6,878</u> | <u>\$(205,000)</u> | <u>\$5,284,807</u> | <u>\$ 205,000</u> |

The annual requirement to amortize all general obligation bonds outstanding, as of December 31, 2004, is as follows:

| <u>Year Ending December 31</u> | <u>Principle</u> | <u>Interest</u> |
|------------------------------------|--------------------|--------------------|
| 2005 | \$ 205,000 | \$ 215,554 |
| 2006 | 205,000 | 207,327 |
| 2007 | 250,000 | 199,026 |
| 2008 | 250,000 | 189,550 |
| 2009 | 275,000 | 180,001 |
| 2010-2014 | 1,035,000 | 774,936 |
| 2015-2019 | 925,000 | 582,751 |
| 2020-2024 | 1,100,000 | 387,975 |
| 2025-2029 | <u>1,100,000</u> | <u>125,400</u> |
| Total | <u>\$5,345,000</u> | <u>\$2,862,520</u> |